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HEALTH CARE CENTERS IN SCHOOLS, INC.

FINANCIAL STATEMENTS

JUNE 30, 2002

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Release Date 11/13/02



HEALTH CARE CENTERS IN SCHOOLS, INC.

FINANCIAL STATEMENTS

JUNE 30, 2002



CONTENTS

	<u>Page</u>
<u>INDEPENDENT AUDITORS' REPORTS</u>	
Independent Auditors' Report	1
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2 - 3
<u>FINANCIAL STATEMENTS</u>	
Statements of Financial Position	4
Statements of Activities	5 - 8
Statements of Cash Flows	9
Notes to Financial Statements	10 - 12
<u>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</u>	13





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A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Health Care Centers in Schools, Inc.
Baton Rouge, Louisiana

We have audited the accompanying statements of financial position of Health Care Centers in Schools, Inc. (a not-for-profit organization) as of June 30, 2002 and 2001, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Health Care Centers in Schools, Inc. as of June 30, 2002 and 2001, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 6, 2002, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Postlethwaite & Netterville

Baton Rouge, Louisiana
September 6, 2002



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Health Care Centers in Schools, Inc.
Baton Rouge, Louisiana

We have audited the accompanying financial statements of Health Care Centers in Schools, Inc. (a not-for-profit organization) as of June 30, 2002 and 2001, and have issued our report thereon dated September 6, 2002. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Organization's financial statements were free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not the objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Organization's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item B-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We do not believe that the lack of segregation of duties described in the accompanying schedule of findings and questioned costs is a material weakness.

This report is intended solely for the information and use of the board of directors and management of Health Care Centers in Schools, Inc. and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. Under La. Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite & Netterville

Baton Rouge, Louisiana
September 6, 2002



HEALTH CARE CENTERS IN SCHOOLS, INC.
BATON ROUGE, LOUISIANA

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2002 AND 2001

ASSETS

	<u>2002</u>	<u>2001</u>
Cash	\$ 34,812	\$ 128
Receivables	<u>131,846</u>	<u>195,739</u>
Total current assets	<u>166,658</u>	<u>195,867</u>
Property and equipment-net	<u>11,891</u>	<u>17,184</u>
Total Assets	<u>\$ 178,549</u>	<u>\$ 213,051</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Line of credit	\$ -	\$ 27,000
Accounts payable	20,000	-
Accrued salaries	<u>18,758</u>	<u>60,029</u>
Total Liabilities	<u>38,758</u>	<u>87,029</u>

NET ASSETS

Unrestricted	98,164	99,256
Temporarily restricted	<u>41,627</u>	<u>26,766</u>
Total Net Assets	<u>139,791</u>	<u>126,022</u>
Total Liabilities and Net Assets	<u>\$ 178,549</u>	<u>\$ 213,051</u>

The accompanying notes are an integral part of these statements.



HEALTH CARE CENTERS IN SCHOOLS, INC.
BATON ROUGE, LOUISIANA

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001

	2002		
	Unrestricted	Temporarily Restricted	Total
<u>SUPPORT AND REVENUE</u>			
Office of Public Health	\$ 1,018,054	-	\$ 1,018,054
Donated services	75,836	-	75,836
Louisiana's Children's Trust Fund	14,148	-	14,148
The Frost Foundation, LTD	-	-	-
Junior League of Baton Rouge, Inc.	-	-	-
East Baton Rouge Parish School System	-	-	-
Istrouma Teen Learning	49,375	-	49,375
Academic Distinction Fund	-	16,000	16,000
Baton Rouge Area Foundation	-	38,000	38,000
United Way	-	33,000	33,000
Medicaid	57,600	-	57,600
Blue Cross Blue Shield	-	5,000	5,000
Partners in Prevention	4,926	-	4,926
Area Health Education Center	1,121	-	1,121
Miscellaneous	1,503	-	1,503
Contributions	558	100	658
	<u>1,223,121</u>	<u>92,100</u>	<u>1,315,221</u>
Net assets released from restrictions	77,239	(77,239)	-
Total support and revenue	<u>1,300,360</u>	<u>14,861</u>	<u>1,315,221</u>

EXPENSES

PROGRAM SERVICES

Salaries and benefits	1,060,411	-	1,060,411
Contractual services	41,106	-	41,106
Health education	3,987	-	3,987
Other	10,026	-	10,026
Repairs and maintenance	1,112	-	1,112
Interest expense	1,559	-	1,559
Insurance	10,956	-	10,956
Depreciation	5,293	-	5,293
Medical supplies	8,441	-	8,441
Office supplies	8,959	-	8,959
Professional fees	27,650	-	27,650
Continuing education travel and meals	14,353	-	14,353
Total program service expenses	<u>1,193,853</u>	<u>-</u>	<u>1,193,853</u>

The accompanying notes are an integral part of these statements.



2001		
Unrestricted	Temporarily Restricted	Total
\$ 996,083	\$ -	\$ 996,083
136,630	-	136,630
31,136	-	31,136
-	21,000	21,000
7,300	-	7,300
22,739	-	22,739
28,256	-	28,256
-	29,200	29,200
-	9,500	9,500
-	15,000	15,000
49,540	-	49,540
-	-	-
-	-	-
-	-	-
1,003	-	1,003
47,275	-	47,275
1,319,962	74,700	1,394,662
63,089	(63,089)	-
1,383,051	11,611	1,394,662

1,057,762	-	1,057,762
53,175	-	53,175
-	-	-
16,239	-	16,239
2,657	-	2,657
7,028	-	7,028
10,028	-	10,028
4,959	-	4,959
29,173	-	29,173
17,856	-	17,856
2,636	-	2,636
13,018	-	13,018
1,214,531	-	1,214,531

HEALTH CARE CENTERS IN SCHOOLS, INC.
BATON ROUGE, LOUISIANA

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001

	2002		
	Unrestricted	Temporarily Restricted	Total
<u>SUPPORT SERVICES</u>			
Salaries and benefits	\$ 86,302	\$ -	\$ 86,302
Contractual services	10,520	-	10,520
Postage	1,512	-	1,512
Office supplies	995	-	995
Professional fees	4,850	-	4,850
Telephone	320	-	320
Continuing education travel and meals	3,100	-	3,100
Total support service expenses	<u>107,599</u>	<u>-</u>	<u>107,599</u>
 Total expenses	 <u>1,301,452</u>	 <u>-</u>	 <u>1,301,452</u>
 <u>CHANGE IN NET ASSETS</u>	 (1,092)	 14,861	 13,769
 <u>NET ASSETS, beginning of year</u>	 <u>99,256</u>	 <u>26,766</u>	 <u>126,022</u>
 <u>NET ASSETS, end of year</u>	 <u>\$ 98,164</u>	 <u>\$ 41,627</u>	 <u>\$ 139,791</u>

The accompanying notes are an integral part of these statements.



2001		
Unrestricted	Temporarily Restricted	Total
\$ 57,108	\$ -	\$ 57,108
14,018	-	14,018
1,076	-	1,076
1,984	-	1,984
4,270	-	4,270
669	-	669
5,072	-	5,072
<u>84,197</u>	<u>-</u>	<u>84,197</u>
 1,298,728	 -	 1,298,728
 84,323	 11,611	 95,934
 14,933	 15,155	 30,088
<u>\$ 99,256</u>	<u>\$ 26,766</u>	<u>\$ 126,022</u>

HEALTH CARE CENTERS IN SCHOOLS, INC.
BATON ROUGE, LOUISIANA

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 13,769	\$ 95,934
Depreciation	5,293	4,959
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Accounts receivable	63,893	(104,876)
Accounts payable	20,000	(4,337)
Accrued salaries	(41,271)	42,091
Accrued interest	-	(1,048)
Net cash provided by operating activities	<u>61,684</u>	<u>32,723</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases of property and equipment	-	(6,033)
Net cash used in investing activities	<u>-</u>	<u>(6,033)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Net repayments on line of credit	(27,000)	(39,012)
Net cash used in financing activities	<u>(27,000)</u>	<u>(39,012)</u>
Net increase (decrease) in cash	34,684	(12,322)
Cash balance, beginning of year	<u>128</u>	<u>12,450</u>
Cash balance, end of year	<u>\$ 34,812</u>	<u>\$ 128</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for interest	<u>\$ 1,559</u>	<u>\$ 8,076</u>
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The accompanying notes are an integral part of these statements.



HEALTH CARE CENTERS IN SCHOOLS, INC.
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

1. Summary of significant accounting policies

Health Care Centers in Schools, Inc. (the Organization) is a private not-for-profit organization located in Baton Rouge, Louisiana. The Organization was created to provide comprehensive health care services to students in need at local schools. The Organization links education with physical and emotional health care to promote the overall well-being of the students. The Organization fulfills its objectives by operating eight clinics located at Glen Oaks Middle School, Westdale Middle School, Prescott Middle School, Northeast High School, Istrouma High School, Glen Oaks High School, Capitol High School, and Northeast Elementary School. These programs are funded by grants received from the State of Louisiana Office of Public Health as well as various other revenues.

The accounting and reporting policies of the Organization conform to accounting principles generally accepted in the United States of America. The significant accounting policies used by the Organization in preparing and presenting its financial statements are summarized as follows:

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash

For purposes of the statement of cash flows, cash includes all short-term instruments having original maturities of three months or less.

Basis of presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization does not have any permanently restricted net assets.

Income taxes

The Organization is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the financial statements.

Allowance for doubtful accounts

All receivables have been deemed collectible by management. Therefore, no allowance account has been created.



HEALTH CARE CENTERS IN SCHOOLS, INC.
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

1. Summary of significant accounting policies (continued)

Property and equipment

Property and equipment are stated at historical cost. Donated property is recorded at its fair value on the date of receipt, which is then treated as cost. Additions, renewals, and betterments that extend the life of assets are capitalized. Maintenance and repair expenditures are expensed as incurred.

Depreciation has been calculated using the straight-line method over the estimated useful lives of the related assets, which range from 5 to 7 years.

Donated services

The Organization recognizes revenue for certain services received at the fair value of those services, provided those services create or enhance non-financial assets or require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased, if not provided by donation. During the years ended June 30, 2002 and 2001, the value of donated services meeting the requirements for recognition in the financial statements was \$75,836 and \$136,630, respectively. The value of donated services provided by physicians in the year ended June 30, 2002 was calculated based on the base salary of the physicians donating the services, while the value of donated services provided by physicians in the year ended June 30, 2001 was calculated based on the total compensation package of the physicians volunteering their time.

Temporarily and permanently restricted net assets

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity. The Organization does not have any permanently restricted net assets.

Grants and contributions

The Organization accounts for grants and contributions in accordance with the requirements of Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

2. Concentration of contributions

The Organization receives approximately 77% and 71% of its annual revenue from the State of Louisiana Office of Public Health in 2002 and 2001, respectively.



HEALTH CARE CENTERS IN SCHOOLS, INC.
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

3. Temporarily restricted net assets

Temporarily restricted net assets were available for the following purposes at June 30:

	<u>2002</u>	<u>2001</u>
LASBHC conference registration	\$ -	\$ 3,000
Health education materials	5,000	-
GAPS Program	2,693	10,654
Community Outreach workers	33,834	13,112
Committed to Kids Program	100	-
	<u>\$ 41,627</u>	<u>\$ 26,766</u>

4. Net assets released from restrictions

Net assets released from donor restrictions for incurring program related expenses satisfying the restricted purposes are as follows for the years ended June 30:

	<u>2002</u>	<u>2001</u>
Academic Distinction Fund	\$ 23,961	18,546
Baton Rouge Area Foundation	22,200	5,655
Capital Area United Way	28,078	5,733
The Frost Foundation	3,000	32,370
Istrouma Teen Learning	-	785
	<u>\$ 77,239</u>	<u>\$ 63,089</u>

5. Property and equipment

Property and equipment consisted of the following at June 30:

	<u>2002</u>	<u>2001</u>
Computer equipment	\$ 17,527	\$ 17,527
Office equipment	9,042	9,042
	26,569	26,569
Less: Accumulated depreciation	(14,678)	(9,385)
Property and equipment, net	<u>\$ 11,891</u>	<u>\$ 17,184</u>

6. Line of credit

The Company has established a revolving line of credit with a bank for \$175,000 at June 30, 2002. There was no outstanding balance at June 30, 2002. The line of credit bears a fluctuating interest rate based on changes in the applicable rate (PRIME, 4.75% at June 30, 2002). The line of credit is secured by accounts receivable and is due on demand.

At June 30, 2001, the Company had established a line of credit with a bank for \$175,000. The outstanding balance was \$27,000 at June 30, 2001. The line of credit had a fluctuating interest rate based on changes in the applicable rate (PRIME plus 2.5%, 9.25% at June 30, 2001). The line of credit was secured by accounts receivable and matured November 1, 2001.



HEALTH CARE CENTERS IN SCHOOLS, INC.
BATON ROUGE, LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEARS ENDED JUNE 30, 2002 AND 2001

A. Summary of Audit Results:

- (1) The independent auditors' report expressed an unqualified opinion on the financial statements of Health Care Centers in Schools, Inc. as of and for the years ended June 30, 2002 and 2001.
- (2) One reportable condition relating to the audits of the financial statements is reported at section B in this schedule. This condition is not considered a material weakness.
- (3) No instances of noncompliance material to the financial statements of the Healthcare Centers in Schools, Inc. were disclosed during the audits.

B. Reportable Conditions:

(1) Lack of Segregation of Duties

Condition - the performance of accounting procedures is limited to two people, which does not provide for proper segregation of duties in all circumstances.

Criteria - segregation of duties is an integral part of internal controls; as such, policies and procedures should be in place that provide reasonable assurance that financial transactions are properly recorded.

Effect - the segregation of duties is inadequate to provide effective internal control.

Recommendation - no action is recommended.

Management's response - we concur with the finding and the recommendation. Compensating controls do exist, such as dual signatures on checks over a specified limit by an authorized member of the Board of Directors. The Board of Directors has decided that it would not be cost effective to increase the size of the administrative staff to achieve effective segregation of duties.